



**COMMUNITY DEVELOPMENT BLOCK GRANT
APPLICATION PROCESS FOLLOW-UP
PERFORMANCE AUDIT**

FEBRUARY 2013



CITY OF DURHAM
AUDIT SERVICES DEPARTMENT

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To: Audit Services Oversight Committee
From: Germaine Brewington, Director
Audit Services Department
Date: **February 14, 2013**
Re: Community Development Block Grant Application
Process Follow-Up Performance Audit

The Department of Audit Services completed the report on the CDBG Application Process Follow-Up Performance Audit dated February, 2013. The purpose of the audit was to verify if the Department of Community Development implemented the recommendations proposed in the CDBG Application Process Performance Audit dated December 2011.

This report presents the observations and results of the CDBG Application Process Follow-Up Audit dated February 2013. Neither recommendations nor a response is attached because management implemented the recommendations outlined in the original audit.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Department of Community Development in the completion of this audit.

TABLE OF CONTENTS

<u>BACKGROUND INFORMATION</u>	5
<u>EXECUTIVE SUMMARY</u>	6
<u>OBJECTIVES, SCOPE AND METHODOLOGY</u>	7
<u>AUDIT RESULTS</u>	8
<u>RECOMMENDATIONS</u>	11
<u>MANAGEMENT’S RESPONSE</u>	NONE

BACKGROUND INFORMATION

The Department of Audit Services performed the CDBG Application Process Performance Audit in December 2011. The purpose of the audit was to determine the adequacy of controls over the Department of Community Development's sub-recipient selection process, beneficiary selection process and contract procurement process. The results of the audit were as follows:

- The Department of Community Development (DCD) effectively utilized the services of the Citizens Advisory Committee (CAC). Assessment by the CAC members and a presentation of recommendations from the CAC as well as the DCD to City Council validated the sub-recipient application process.
- The DCD staff maintained sufficient documentation to support the eligibility requirements for the Home Buyer Mortgage Assistance Program.
- The controls over awarding of CDBG funds to sub-recipients needed strengthening.
- An adequate beneficiary selection process existed for projects administered in-house by the Department of Community Development. Opportunities for improvement were noted in the following areas:
 - A need for notarization of contract documents for the Substantial Rehabilitation Program by appropriate parties; and
 - A need for stronger controls over payment of the Relocation Program expenses.
- The DCD staff procured the services of contractors in accordance with required regulations. However, opportunities existed for improvement in the following area.
 - Managing change orders

The audit proposed five recommendations to address the areas of concern.

EXECUTIVE SUMMARY

Purpose

The purpose of the audit was to verify if the Department of Community Development implemented the recommendations proposed in the CDBG Application Process Performance Audit dated December 2011.

We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The CDBG Application Process Performance Audit dated December 2011 proposed five recommendations to management. The status of the recommendations is:

- All five recommendations were fully implemented.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objective of the audit was to verify if:

- The Department of Community Development implemented the proposed recommendations.

Scope

The scope of the audit included examining the Department of Community Development's current controls as they relate to the proposed recommendations of the CDBG Application Process Performance Audit dated December 2011.

Methodology

To accomplish the objective of the audit, staff performed the following:

- Interviewed various City personnel responsible for implementing the proposed recommendations; and
- Obtained and reviewed policies, procedures, and documentation to support the implementation of the proposed recommendations.

During the audit, staff also maintained awareness to the potential existence of fraud.

The recommendations in the CDBG Application Process Performance Audit dated December 2011 and the accompanying status of each recommendation follow.

Recommendation 1 (December 2011 Audit)

The Department of Community Development should make the following changes to the sub-recipient selection process:

- Develop written guidelines, which outline the sub-recipient application process. The guidelines should describe the evaluation criteria for scoring the applications in detail and provide guidance to staff on what would constitute a high score versus a low score. The guidelines should be provided to the Department of Community Development staff as well as the Citizens Advisory Committee members to facilitate consistent application of the criteria;
- Review all selection criteria to ensure the criteria include all factors used in the decision making process;
- Review *A Guidebook for CDBG Grantees on Sub-recipient Oversight* by HUD. Specifically examine the sub-recipient selection checklist and the example of the two-part rating system. Determine if some of the suggestions can be incorporated into the current process;
- Maintain documentation from the minutes in the respective files, which reflects the conditions or reasons for awarding or denying funds to an applicant as part of the application process; and
- Provide training to the Department staff as well as the members of the Citizen Advisory Committee on administering the selection process annually.

Status: Fully Implemented

The Department of Community Development staff has developed written guidelines outlining the sub-recipient application process. The guidelines define the evaluation criteria for scoring the application. Training was provided to the Department staff as well as the members of the Citizen Advisory Committee on administering the selection process.

Recommendation 2 (December 2011 Audit)

The Department of Community Development should ensure that the members of the Citizens Advisory Committee sign a conflict of interest form on an annual basis.

Status: Fully Implemented

The Department of Community Development staff have implemented the practice of requiring members of the Citizens Advisory Committee to sign a conflict of interest form on an annual basis. Audit staff reviewed some of the signed conflict of interest forms.

Recommendation 3 (December 2011 Audit)

The Department of Community Development should ensure that purchase orders generated for the Relocation Program expenditures contain all relevant information such as name of owner, property address, and length of stay in order to reconcile the request to the amount billed.

Status: Fully Implemented

The submitted purchase orders and invoices associated with the Relocation Program reflect all relevant information necessary to allow reconciliation of the request to the amount billed.

Recommendation 4 (December 2011 Audit)

The Department of Community Development should ensure that owners are notarizing the required documents for all Programs.

Status: Fully Implemented

The Department of Community Development staff implemented a new process where a Community Development Staff member (who is a notary) goes on site and notarizes the contract documents in the presence of the home owner and contractor at one time. Audit staff verified proper execution of the agreements for all four units that were substantially rehabilitated during FY 2011 - FY 2012. All contracts were properly notarized. No exceptions were noted.

Recommendation 5 (December 2011 Audit)

The Department of Community Development should monitor and manage the total cost of the contracts by:

- Ensuring that change orders are justified and justification is documented; and
- Analyzing contracts by contractors or project managers to determine if certain contractors or project managers consistently use change orders to increase the price of the contract.

Status: Fully Implemented

Audit staff obtained and reviewed the revised Change Order Form currently used to monitor the change orders by the Department of Community Development staff. The revised Change Order Form now allows for a more complete and comprehensive explanation of the change to the project and the reason for the change.

RECOMMENDATIONS

No recommendations were provided.